Central Intelligence Agency

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DIRECTORATE OF INTELLIGENCE

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US-China Economic Relations

Summary

Technology transfer and commodity trade issues dominated US-China economic relations over the past year. While tension over technology transfer abated toward yearend, fallout from the textile issue depressed Sino-US trade. Largely the result of reduced Chinese imports of US goods, two-way trade dropped 15 percent to $4.4 billion. Beijing pointed to US trade restrictions as the reason for cutbacks, although market forces contributed heavily. In spite of discord over trade, negotiations progressed on several agreements that could enhance the Sino-US commercial relationship. 25X1

Trade probably will revive and US investment in China is likely to expand in the wake of looser export controls and the conclusion of the industrial and technological cooperation accord. Textile trade will continue to be an irritant since Beijing relies on textile exports as a major source of earnings. At the same time, we expect that US reluctance to grant China carte blanche access to sensitive technologies will lead to further friction. 25X1

Although China has joined the Multifiber Arrangement of GATT, it is not likely to seek full GATT membership in the near future. Similarly, membership in the Asian Development Bank will probably be delayed until the dilemma of simultaneous membership for China and Taiwan is resolved. 25X1

This memorandum was produced by of the China Division of the Office of East Asian Analysis in response to a Treasury Department request. Questions and comments are welcome and may be addressed to the author at 351-7557. 25X1

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Trade in 1983

In 1983 the United States incurred an annual trade deficit with China for the first time since 1977. US exports to China dropped 25 percent compared with 1982 levels; imports slipped nearly 2 percent. The deficit reached $300 million through October but fell to $70 million by yearend because of a jump in US exports during November and December. 25X1

The decline in US exports to China was particularly sharp in wheat, textile fibers, and plastics. Lower prices depressed the value of trade in many commodities, offsetting solid volume gains in some, such as timber. Strong sales of capital goods and finished manufactures were led by aircraft and measuring and control instruments. On the other hand, total US imports of Chinese goods stagnated in 1983. Imports of apparel, gasoline, woven basketware, and industrial fasteners increased while fabrics and light oils slipped. 25X1

Frictions Over Commodity Trade

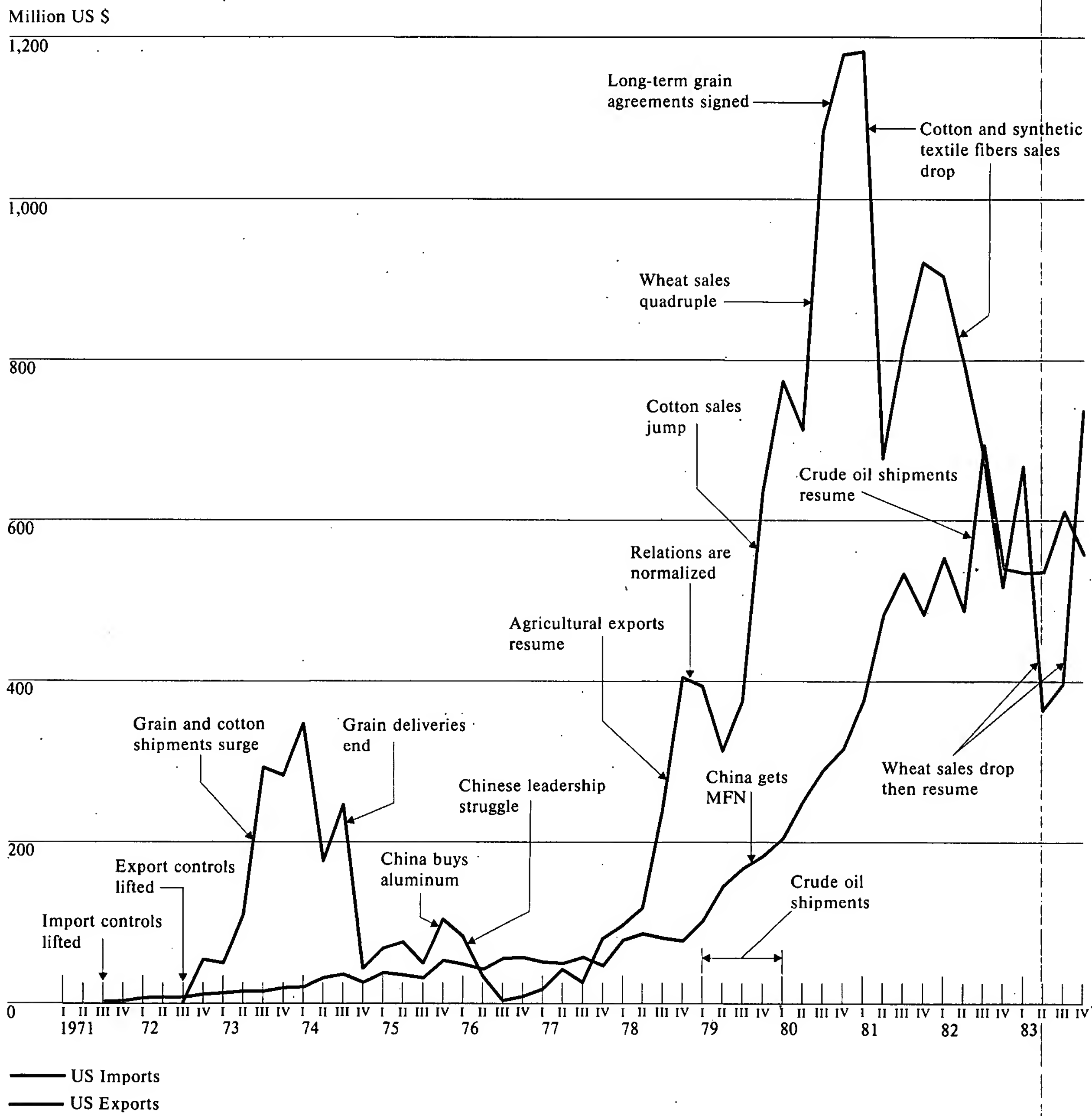
As in the past, Beijing pressed hard for higher levels of US imports to balance bilateral trade. In 1983, however, China met increasingly strong resistance to rapid growth in imports. Because Beijing's exports cover only a narrow range of products, attempts to increase sales have provoked antidumping complaints and other actions designed to limit China's activities in US markets. 25X1

China's economic reforms have stimulated some of the trade friction with the United States. Decentralization of trade responsibilities and emphasis on profitability have thrust factories and local trade organizations into international trade activities with which they are often unfamiliar. The consequent underpricing of some Chinese goods in world markets has resulted in US antidumping investigations and restrictions on several commodities, such as chloropicrin, potassium permanganate, and gasoline. Beijing has given limited, grudging cooperation to US antidumping investigators but still faults Washington for restraining free trade. China is concerned that:

- It is being unfairly singled out.
- Broadening US restrictions will be imitated in other markets, as is already the case in the European Community.
- Widespread constraints on textile sales will dampen export earnings and undermine a key source of financing for China's economic modernization. 25X1

Beijing gave substance to its objections beginning in January 1983 when, after talks to renew the bilateral textile trade agreement failed and Washington imposed new controls,

China: Highlights of Trade With the United States



Data from US Department of Commerce shows both exports and imports on an f.o.b. basis.

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Beijing embargoed US cotton, soybeans and synthetic fibers. Because China had adequate supplies of these products, the embargo probably had little significant impact on trade. However, China also stopped buying US wheat--a major component of bilateral trade--and turned to alternative suppliers. Following the conclusion of a textile trade accord last summer, Beijing gradually resumed purchases of synthetic fibers and wheat. Nonetheless, grain deliveries in 1983 (3.8 million tons) did not reach the minimum required under the Sino-US Long Term Agreement (6 million tons). 25X1

Commodity Trade Prospects

Prospects for trade in 1984 are better because of the improved political climate and the US economic recovery. Even with continued good harvests and improved internal distribution, grain sales could see moderate gains. They could rise significantly in the event of a poor harvest or a Beijing decision to accelerate improvement in the Chinese diet. Sales of pesticides and fertilizers, especially phosphates, will probably continue strong to support agricultural development. 25X1

Among China's exports, Beijing will continue to rely on textiles as a major source of earnings in spite of increasing restraints by developed countries. Textiles will take on added significance if Beijing decides to reduce oil exports in the face of declining production and rising domestic demand. Textiles aside, Chinese exports of other goods will face new obstacles if US producers file antidumping or countervailing duty charges following the example of the US textile industry last fall. Disagreements over levels of commodity trade should not impede increased activity by US firms in China, however. 25X1

Investment and Other Ties

US investment in joint ventures, wholly-owned subsidiaries, and other projects now exceeds $500 million. China's program to upgrade its industrial plants will provide additional opportunities for US investment and will bolster US sales of capital goods. Although the lack of a bilateral investment treaty and continued delays in a Chinese patent law may have a chilling effect on some firms interested in investing in China, most firms will be able to arrange contractually any necessary investment or technology protection. The patent law is expected out later this year, but the investment treaty faces continuing difficult negotiations. 25X1

Although the Taiwan problem persists, economic ties warmed appreciably last June when Washington liberalized high-technology exports to China. The Chinese had long viewed US restrictions on technology exports as an indication that the United States was treating China as something less than a friendly country. The move to Category V--which includes the NATO countries, Japan, India and Yugoslavia--streamlines the export licensing process

for many of the technologies Beijing wants. Nonetheless, Chinese purchases of some, particularly military-related, items still must be approved by COCOM, where they are subject to delay. 25X1

The industrial and technological cooperation pact signed during Premier Zhao's visit provides a framework to enhance US involvement in China's industrial development. Opportunities for US participation will be strongest in the energy and transportation sectors, which are Beijing's priorities. US firms are already deeply involved in China's petroleum sector and are cooperating with China in coal and hydropower projects. 25X1

There has been substantial progress on a US-China nuclear cooperation agreement. Apparently only one major sticking point remains. In China's view, onsite inspections of nuclear-related materials or technologies--required under treaties between the US and other nuclear countries--are unacceptable violations of Chinese sovereignty. However, West Germany and Japan may soon sign agreements with China that require IAEA safeguards but no inspections. These pacts may strengthen China's hardline stand in negotiations with the United States, but stated Chinese preferences for US equipment and technology may yet allow for some form of accommodation, such as inspections by vendors. US firms stand to gain lucrative sales of nuclear technology and equipment if agreement can be reached, possibly in time for President Reagan's visit to China in April. 25X1

International Organizations

China will continue to join international economic organizations. Now that China has joined GATT's Multifiber Arrangement, it will begin to move toward formal GATT membership. Under US law, joining GATT is the last major requirement for China to be considered for Generalized System of Preferences status. When Beijing does join GATT, it will mount considerable pressure on Washington for GSP. 25X1

Beijing's quest for membership in the Asian Development Bank (ADB) probably will drag on, although China would like it considered at the ADB meeting in April. China could press for admission at Taiwan's expense, thereby trying to force the United States to openly support one or the other; but there are good indications that, China will not push if it may damage the Bank. And most member countries are reluctant to let themselves or the Bank become involved in the Chinese political issue. 25X1

Distribution:

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